NABE OUTLOOK

NABE MACROECONOMIC FORECAST
September 1988

This report presents the consensus of macroeconomic forecasts made by a panel of professional forecasters drawn from the membership of the National Association of Business Economists. Most of the forecasts submitted were made in August 1988, and are being reported in September 1988. This survey is one of three taken regularly by NABE; the other inquiries are the Industrial Outlook and the Economic Policy Assessment surveys.

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Current Highlights

* NABE forecasters have increased their real GNP forecasts for 1988. Median real growth is now estimated at 3.9%, on the year average basis, compared with 2.9% in the previous survey; measured fourth quarter-to-fourth quarter the median expectation is a 3.1% gain versus 2.3% before.

* For 1989, however, the growth outlook is only 2.3%, little changed from the 2.2% found in the prior survey; from the end of 1988 through the end of 1989 the forecast is for 2.0% growth, unchanged from the prior survey result.

* Inflation is expected to rise moderately in both 1988 and 1989. For 1988, on average, the Consumer Price Index is forecasted to be up 4.1% (about the same as the 4.0% in the prior survey) following a 3.7% advance in 1987; in 1989 the rise is projected at 5.0% (versus 4.7% in the previous survey).

* Economists have become more optimistic on the trade outlook, estimating that both real net exports and the nominal merchandise trade balance will show larger improvements than previously expected in both 1988 and 1989.

* The next recession is being pushed back further with 47.3% of respondents expecting it to start in 1989 (down from 57.4% in the last survey) and 41.8% expecting a 1990 start (versus 31.5% before) and 10.9% anticipating a still later beginning.

* Interest rates--both short and long--are projected to peak in the first half of 1989 according to the median of quarterly estimates.

* Five year trend growth of real GNP is put at 2.8%, labor productivity at 1.5%, and the CPI at 4.5%.

1988 Economic Forecast

NABE forecasters have raised their estimates for 1988 in the latest survey taken in the second half of August. As may be seen in Table 1, real GNP growth, measured fourth quarter to fourth quarter, is projected at 3.1% versus 2.3% in the prior survey; measured with year averages the forecast is 3.9% growth in 1988 versus the previous prediction of 2.9%. After the stock market crash in October 1987, the NABE panel reduced its estimates, although no recession was foreseen. The latest forecasts put the 1988 gains above the pre-crash consensus. One important factor behind the current estimates is the substantial upward corrections to the 1987 figures made by the Bureau of Economic Analysis in its July revisions. As a consequence the growth trajectory of the economy was raised. Information received between the last survey (in May) and the current one has been strong, in general, although a few very recent indicators have moved the other way.

By component, the NABE panel has boosted estimates of growth in the following sectors: consumer spending (to 2.5% from 2.0% in May), business investment (to 10.3% versus 8.3%) and real net exports (to an annual average of -$91 billion from -$117 billion). Other forecast changes of note, also shown in Table 1, include:

* The nominal merchandise trade deficit is put at $135 billion versus $150 billion previously.

* The federal budget for fiscal 1988 is expected to be in deficit by $150 billion versus $155 billion in the prior survey.

* Industrial production is seen rising by 5.2% for 1988, on average, versus 4.5% earlier.

* There are small changes in expectations for the big ticket consumer expenditures; automobile sales are revised up to a 10.5 million unit annual total (from 10.3 million) while housing starts are lowered to 1.48 million units (from 1.51 million).

* The inflation and interest rate forecasts are changed little, except in the case of short-term interest rates, where T-bills are expected to average 6.6% (versus 6.1% in the May inquiry).

1989 Economic Forecast

The NABE panel continues to view 1989 prospects less favorably, with economic growth slowing and inflation continuing to move up somewhat. The estimates are little changed from the previous survey and are as follows:

	1989 Estimates from Survey in: May	August
Real GNP growth (year average)	2.2%	2.3%
Real GNP growth (1988Q4-1989Q4)	2.0	2.0
Consumer price change (year average)	4.7	5.0
Consumer price change (1988Q4-1989Q4)	5.0	5.1

Although the totals have not changed much, there have been several important adjustments within the components. The trade prospects are brighter with real net exports projected at -$67 billion (versus -$93 billion in May) and the nominal merchandise balance estimated to be -$120 billion (compared to -$130 billion earlier). Also the civilian unemployment rate is now estimated at 5.6% (versus 5.9% before), and housing starts are anticipated to run at 1.41 million units (versus 1.49 million).

While the 1988 forecasts are closely bunched together, there is considerable disparity across those for 1989. The median forecast of GNP advance, fourth quarter-to-fourth quarter, is 2.0%, but the upper quartile expects another year similar to 1988 with output up 3.0% and the bottom quartile has an average gain of only 0.6%. The differences are not, however, due to sector of employment, region, or theoretical structure of analysis since there is a fairly wide dispersion of results among forecasters in each of these groups.

Quarterly Interest Rate Forecasts

As an optional question, we requested that respondents provide a quarterly path for the interest rate predictions. The quarterly medians of the available forecasts are given in the panel below:

Median estimate	88Q1A	88Q2A	88Q3E	88Q4E	89Q1E	89Q2E	89Q3E	89Q4E
Treasury Bill (91 Day)	5.7	6.2	7.0	7.2	7.5	7.6	7.3	7.0
Treasury Bond (30 Year)	8.6	9.1	9.3	9.6	9.9	9.9	9.6	9.4

A= Actual; E=Estimate

Both short and long rates are projected to increase into the first half of 1989 but then to decline in the second half.

Next Recession

The panel has pushed out in time its guess as to when the next recession will begin. Fewer respondents look for a 1989 start than was the case in the prior survey, and more look for the downturn to commence in 1990 or later.

Next Recession Begins In:	% of Respondents in: May 1988	August 1988
1988	5.6%	0.0%
1989	57.4	47.3
1990	31.5	41.8
1991	1.9	9.1
1992 or later	3.8	1.8

Long-Run Parameters

Once a year NABE surveys have requested information on several long-term growth rates. Although the sample of respondents was a larger panel in 1987, we show below the findings last year for comparison:

Five Year Growth Rate (1988-1992) in:	Survey Taken in: August 1987	August 1988
Real GNP	2.5%	2.8%
Productivity (nonfarm business)	1.5	1.5
Consumer Price Index	4.6	4.5

The GNP growth is raised slightly, but overall, economists have not revised their five year forecasts very much.

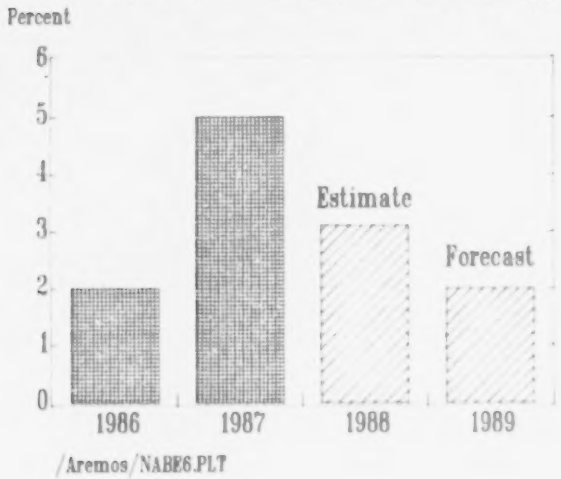
TABLE 1
SUMMARY OF NABE MEDIAN FORECASTS

	1987 Actual	1988E Aug 87 Survey	1988E Nov 87 Survey	1988E Feb 88 Survey	1988E May 88 Survey	1988E Aug 88 Survey*	1989E May 88 Survey	1989E Aug 88 Survey*
Fourth Quarter to Fourth Quarter								
Real GNP	5.0%	2.7%	2.0%	2.0%	2.3%	3.1%	2.0%	2.0%
Consumer Price Index	4.5%	4.8%	4.3%	4.2%	4.3%	4.4%	5.0%	5.1%
Annual Averages								
Real GNP	3.4%	2.7%	2.1%	2.2%	2.9%	3.9%	2.2%	2.3%
Personal consumption expend.	2.7%	NA	NA	NA	2.0%	2.5%	2.0%	2.0%
Nonresidential fixed invest.	2.8%	3.4%	2.3%	3.8%	8.3%	10.3%	2.5%	3.7%
Net exports	-$128.9	NA	NA	NA	-$117	-$91	-$93	-$67
Nominal Magnitudes:								
Merchandise trade balance	-$170.3	-$140	-$142	-$150	-$150	-$135	-$130	-$120
Federal budget deficit (FY)	-$149.5	-$170	-$160	-$157	-$155	-$150	-$151	-$150
Corporate profits (after-tax)	10.1%	4.0%	2.0%	3.0%	9.1%	9.5%	4.7%	5.0%
Real Magnitudes:								
Unemployment rate (civilian)	6.2%	6.0%	6.3%	6.0%	5.6%	5.5%	5.9%	5.6%
Industrial production	3.8%	NA	NA	NA	4.5%	5.2%	2.9%	2.9%
Housing starts (millions)	1.63	1.60	1.53	1.52	1.51	1.48	1.49	1.41
Auto sales (millions)	10.3	10.5	10.0	9.8	10.3	10.5	10.0	10.0
Inflation and Interest Rates:								
Consumer price index	3.7%	4.7%	4.2%	4.0%	4.0%	4.1%	4.7%	5.0%
GNP deflator	3.3%	NA	NA	NA	3.1%	3.1%	4.2%	4.4%
Treasury bills (3 month)	5.8%	NA	NA	NA	6.1%	6.6%	6.8%	7.4%
Treasury bonds (30 year)	8.6%	NA	NA	NA	9.1%	9.2%	9.5%	9.6%

NA = Not Available in earlier surveys.
* = Based upon 61 forecasts submitted in August 1988.

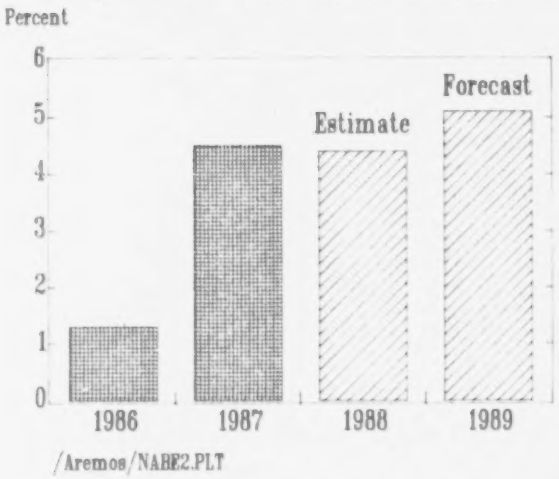
NABE's Macro Panel Expects Slower Economic Growth

(Real GNP, 4th-Quarter-to-4th-Quarter Percent Change)

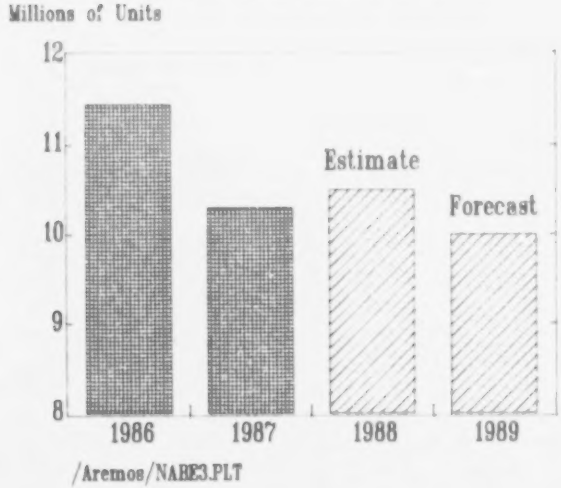


But a Speed-up in Inflation

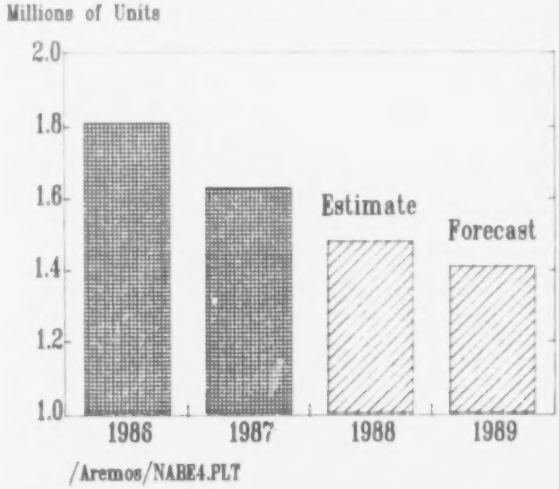
(Consumer Prices, 4Q-to-4Q Percent Change)



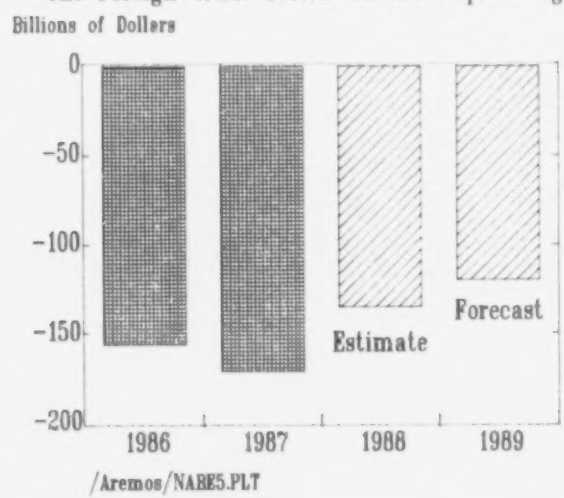
New-Car Sales Should be Lower



And Housing Starts Will be Down



The Foreign Trade Deficit Should Improve Again



But the Budget Deficit Will Remain Huge